



FEDERAL ELECTION COMMISSION
Washington, DC 20463

June 8, 1998

VIA CERTIFIED MAIL

American Free Enterprise PAC and
David Bauer, as treasurer
c/o Mark Braden
Baker & Hostetler
1050 Connecticut Ave, N.W.
Washington, D.C. 20036

RE: MURs 4568, 4633 and 4634

Dear Mr. Braden:

On May 5, 1997 and May 12, 1997, the Federal Election Commission notified your client, American Free Enterprise PAC and David Bauer, as treasurer,¹ of complaints, designated as MURs 4633 and 4634, alleging violations of the Federal Election Campaign Act of 1971, as amended ("the Act"). Copies of these complaints were forwarded to your client at that time.

Upon further review of the allegations contained in the complaints, information supplied by your client and other sources, as well as information obtained in the normal course of its supervisory responsibilities, the Commission, on June 2, 1998, found reason to believe that American Free Enterprise PAC and David Bauer, as treasurer, violated 2 U.S.C. § 434 and § 441f. The Factual and Legal Analysis, which formed a basis for the Commission's finding, is attached for your information.

You may submit any factual or legal materials that you believe are relevant to the Commission's consideration of this matter. Please submit such materials to the General Counsel's Office along with your response to the enclosed Subpoena to Produce Documents and Order to Submit Written Answers within 30 days of receipt of this letter. Where appropriate, statements should be submitted under oath. In the absence of additional information, the Commission may find probable cause to believe that a violation has occurred and proceed with conciliation.

¹ Barry Zanck was the treasurer of American Free Enterprise PAC at the time the respondents were notified of the complaint in MUR 4633.

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If you are interested in pursuing pre-probable cause conciliation, you should so request in writing. See 11 C.F.R. § 111.18(d). Upon receipt of the request, the Office of the General Counsel will make recommendations to the Commission either proposing an agreement in settlement of the matter or recommending that pre-probable cause conciliation not be pursued. The Office of the General Counsel may recommend that pre-probable cause conciliation not be entered into at this time so that it may complete its investigation of the matter. Further, the Commission will not entertain requests for pre-probable cause conciliation after briefs on probable cause have been mailed to the respondent.

Requests for extensions of time will not be routinely granted. Requests must be made in writing at least five days prior to the due date of the response and specific good cause must be demonstrated. In addition, the Office of the General Counsel ordinarily will not give extensions beyond 20 days.

This matter will remain confidential in accordance with 2 U.S.C. §§ 437g(a)(4)(B) and 437g(a)(12)(A) unless you notify the Commission in writing that you wish the matter to be made public.

If you have any questions, please contact Mark Shonkwiler, the attorney assigned to this matter, at (202) 694-1650.

Sincerely,

Joan D. Aikens

Joan D. Aikens
Chairman

Enclosures:

Subpoena to Produce Documents and Order to Submit Written Answer
Factual and Legal Analysis

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FEDERAL ELECTION COMMISSION

FACTUAL AND LEGAL ANALYSIS

**RESPONDENTS: American Free Enterprise PAC MURs: 4568, 4633 and 4634
David Bauer, as Treasurer¹**

I. GENERATION OF THE MATTERS

MUR 4633 was generated by a complaint filed by James Anderson, Esq. MUR 4634 was generated by a complaint filed by Micheline Z. Burger. *See* 2 U.S.C. § 437g(a)(1). The Federal Election Commission ("Commission") subsequently determined that it would investigate MUR 4633 and MUR 4634 in conjunction with MUR 4568. The respondents were added to this last MUR based on information ascertained by the Commission in the normal course of its supervisory responsibilities. *See* 2 U.S.C. § 437g(a)(2).

II. FACTUAL AND LEGAL ANALYSIS

The Commission believes that the specific incidents recounted in the subject MURs are most appropriately viewed in the context of Triad Management Services, Inc.'s ("Triad") involvement in the 1996 election cycle. During the latter part of 1996 and throughout 1997, there were a number of press accounts concerning the activities of Triad in connection with these federal elections. In summary, it was reported that Triad came to the aid of a substantial number of Republican campaigns, including the Bob

¹ Barry Zanuck was the treasurer of the American Free Enterprise PAC at the time the respondents were notified of MUR 4633 and MUR 4634..

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Riley for Congress committee and the Sam Brownback for U.S. Senate committee, after learning of their needs through a process it referred to as a "political audit."

The materials assembled thus far indicate that Triad's assistance may have encompassed setting up a plan to arrange contributions from certain individuals, who already had made the maximum legal contribution to certain federal candidates, to various political action committees ("PACs"). These PACs reportedly then gave identical or nearly identical amounts back to the original contributor's preferred candidate.

The Commission has found reason to believe that during the 1996 election cycle, the American Free Enterprise PAC and David Bauer, as treasurer, ("respondents") may have permitted the name of the PAC to be used by John and Ruth Stauffer ("the Stauffers") for the purpose of making a contribution to the Sam Brownback for U.S. Senate committee in the name of another. The Commission has also found reason to believe that the respondents may have failed to accurately report the nature of its receipts from the Stauffers and the contributions that it made to the Sam Brownback for U.S. Senate campaign.

Further, the Commission has found reason to believe that during the 1996 election cycle, the American Free Enterprise PAC and David Bauer, as treasurer, ("respondents") may have permitted the name of the PAC to be used by Robert Riley, Jr. for the purpose of making a contribution to the Bob Riley for Congress committee in the name of another. The Commission has also found reason to believe that the respondents may have

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failed to accurately report the nature of its receipts from Mr. Riley and the contributions that it made to the Bob Riley for Congress campaign.

A. THE APPLICABLE LAW

The Federal Election Campaign Act of 1971, as amended, ("the Act") prohibits persons from allowing their names to be used to effect a contribution in the name of another. 2 U.S.C. § 441f. The Act also requires any organization that qualifies as a political committee, including an unconnected committee, to file periodic reports of receipts and disbursements with the Commission. 2 U.S.C. § 434

B. FACTS

1. Triad

Triad appears to have been created during the 1996 election cycle. Triad reportedly was founded by Carolyn Malenick, who previously had worked as a fundraiser for various political groups and campaigns, including, *inter alia*, Oliver North's 1994 bid for the US Senate. At different times, Ms. Malenick reportedly has described herself as the President and Chief Executive Officer of Triad; the Director of Triad; and the Chief Operating Officer of Triad. *See, e.g.*, 11/19/97 Carolyn Malenick letter-to-the-editor of the Dayton Daily News; Undated Triad Advertisement.

Triad advertises itself as a political consulting firm that provides services to donors interested in making political contributions to conservative candidates, campaigns, issues and projects. *See* Undated Triad Advertisement. Triad attempts to distinguish itself from other political consulting firms by claiming that it only works for donors, not for candidates or campaigns. *Id.*

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Press accounts indicate that Triad representatives have described the company as operating in a manner akin to a stock brokerage for conservative political donors, providing research and analysis of upcoming elections, and dispensing advice on how to maximize the impact of political contributions. See 9/28/96 National Journal article. In sum, Triad reportedly seeks to give wealthy contributors advice on how to get the “biggest bang for the buck” with their contributions by telling them which conservative candidates look like winners and which ones need help. *Id.*

2. Triad’s Political Audits

At least one news account has reported that Triad personnel and consultants performed what Triad labeled as “political audits” on approximately 250 campaigns during the 1996 election cycle. See 10/29/97 Minneapolis Star-Tribune article. This news account also reported that a Triad spokesperson described the purpose of these political audits, many of which reportedly included meetings with the candidate or senior campaign officials, as the identification of “races where donors could support candidates who shared their ideological views and had a viable campaign.” *Id.*

The political audit reports released as exhibits to the Final Report on Investigation of Illegal or Improper Activities in Connection with 1996 Federal Election Campaigns by the Senate Committee on Governmental Affairs (“Senate Report”) suggest that Triad conducted a standardized review of congressional campaigns. The first point reflected in many of these audit reports was a date on which a Triad representative met with someone from the campaign to obtain the information contained in the audit. Most of the audit

reports included as Exhibits to the Senate Report followed a standard format discussing some or all of the topics listed below.

FORMAT OF TRIAD "POLITICAL AUDIT" REPORT

- I. **Finances** - (assessment of planned expenditures, current cash-on-hand and possible fundraising shortfalls)
- II. **Polling** - (review of polling trends in race)
- III. **Key Issues** - (list of issues considered critical to the campaign's success)
- IV. **Needs** - (campaign's self-identification of specific nonmonetary needs; e.g., big name speaker to attract supporters to rally)

General Observations (Comments on campaign organizations)

Good Points about Campaign - (Subjective analysis of strengths)

Bad Points about Campaign - (Subjective analysis of weaknesses)

Prospect for Victory - (Assessment of Candidate's Chance to Win)

Action - (Follow-up Actions for Triad personnel)

Conclusion (Recommendation on support for campaign)

See, e.g., Triad political audit reports attached to Senate Report.

Indeed, it appears that as part of these audits, Triad met with representatives from each of the campaigns specifically addressed by the MURs, including the Bob Riley for Congress Committee and the Sam Brownback for U.S. Senate committee, to discuss the specific strengths and weaknesses of their campaign, and to learn what help the campaign needed to successfully compete in the upcoming election. Information obtained by the Commission suggests that in some instances, after completing an audit, Triad may have

had ongoing contacts with some campaigns to assess their developing prospects and needs.

After completing its political audit on a campaign, including the Riley and Brownback committees, Triad reportedly provided the results of its research and analysis to prospective political donors. It appears that rather than waiting for donors to make specific requests for information about a particular campaign, Triad periodically sent general "Fax Alerts" to prospective donors which extolled the virtues of various campaigns and provided Triad's recommendations for political contributions. Based on documents attached as exhibits to the Senate reports, it appears that Triad sent no fewer than sixty (60) separate fax alerts between February and December 1996. *See* Triad Fax Alert Index. Further, while the Commission currently lacks information as to how many potential contributors received each Triad Fax Alert, one of the fax alerts in the middle of the known range (No. 28 out of 60) notes that "over 160 businessmen and women have been added to the Fax Alert in the last 18 months." *See* 10/10/96 Triad Fax Alert titled "Countdown to Election Day: 27 Days."

As discussed below, Triad appears to have used the information derived from its "political audits" in a number of different ways that may have resulted in excessive, prohibited and/or unreported in-kind contributions to the Sam Brownback for U.S. Senate campaign.

2. Triad's Fundraising Efforts

It appears from the text of the audits attached as exhibits to the Senate report and from examples of the solicitations set forth in what Triad called "Fax Alerts," that the

audits were also a source of information based on which Triad decided where to focus its fundraising resources. The Triad Fax Alerts urge the recipients to make contributions and otherwise support various Triad-recommended candidates in both the primary and general elections. See Triad Fax Alerts attached to Senate Report. The Sam Brownback for U.S. Senate committee and the Bob Riley for Congress committee are mentioned in several of the Triad Fax Alerts.

Some of the audit reports refer to what appears to have been a practice Triad had of soliciting donors who already had made the maximum legal contribution to particular candidates Triad was seeking to support. In addition, certain of these reports seem to indicate that Triad may have tried to interest such donors in making contributions to certain selected political action committees ("PACs"), which made subsequent, and often identical, contributions to the original donor's preferred candidate(s).²

For example, an excerpt from the Triad audit report of the campaign of Pete Sessions, which is attached to the Senate Minority report, states: "[b]oth Sessions and [the campaign manager] clearly understand the Triad concept and will have a list of their maxed out donors for our inspection as soon as there is a call from Washington." See excerpt from Pete Sessions audit report. Another audit report states that "Ed Merritt has a number of maxed out donors who might want to be introduced to Triad. Towards that

² It has been reported that Ms. Malenick acknowledged that Triad would try and match donors referred to it by a candidate to PACs who were likely to support the same candidate, but denied that there was any coordination between the individual contribution to the PACs and the PAC contributions to the candidate. See October 8, 1997 Article in The Hill. Triad's advertisements seem to hint at this by stating that its "services to clients" include "[w]orking with conservative political action committees and issue organizations for efforts to maximize their separate funding sources to accomplish common objectives." See Triad Advertisement.

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end, I have recommended over the telephone to [a Triad employee] that we check out their receptance." See Ed Merritt audit report. In what appears to be reference to the same practice, the Triad audit report on the Sam Brownback for US Senate campaign, notes that Triad will "[n]eed to work with potential clients that may be recommended by the Brownback campaign and with the finance chairman to ensure that Triad is properly advertised." See Brownback audit report.

It was in this context that Robert Riley, Jr.,³ who had already donated the maximum legal amount of money to the Bob Riley for Congress committee, made \$5000 in contributions to five PACs, which within a short time, made identical or nearly identical contributions to the Riley campaign.

On May 9, 1996, Robert Riley, Jr. sent Triad. a \$1,000 check made out to the American Free Enterprise PAC. The relevant disclosure documents state that this contribution was received by the respondent PAC on May 13, 1996. On May 23, 1996, the PAC made a donation in the amount of \$1000 to the Congressman's campaign

Name of PAC	Date of Contribution by Riley, Jr. ⁴	Amount of Contribution by Riley, Jr.	Date of PAC Contribution to Campaign	Amount of PAC Contribution to Campaign
American Free Enterprise PAC	5/13/96	\$1000	5/23/96	\$1000

³ Robert Riley, Jr. is the son of the candidate, Robert R. Riley.

⁴ The reported date of the contribution is based on the date of receipt reported by the PACs. The Commission has other information which suggests that Robert Riley, Jr. wrote the checks for all five contributions on May 9, 1996 and that Triad forwarded the five checks to the different PACs with cover letters dated May 10, 1996.

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John and Ruth Stauffer, who had given the maximum allowable amount to money to the Sam Brownback campaign, made \$32,500 in donations to seven PACs. Within a short period to time these PACs made identical or nearly identical contributions to the Brownback committee.⁵

On July 19, 1996, the couple gave \$5000 to the American Free Enterprise PAC. On July 12, 1996 the PAC donated \$1000 to the Brownback committee. The respondent organization then made an additional contribution of \$3500 to the campaign on July 29, 1996.

Name of PAC	Date of Stauffer's Contribution ⁶	Amount of Stauffer's Contribution	Date of PAC Contribution to Brownback	Amount of PAC Contribution to Brownback
American Free Enterprise PAC	7/19/96	\$5000	7/12/96	\$1000
			7/23/96	\$3500

C. ANALYSIS

Based on the information available at this time, the Commission has found reason to believe that the American Free Enterprise PAC and David Bauer, as treasurer, permitted the name of the PAC to be used Robert Riley, Jr. for the purpose of making a contribution to the Bob Riley for Congress committee in the name of another person. By allowing the PAC's name to be so used, the respondents may have violated the Federal Election Campaign Act of 1971, as amended, specifically, 2 U.S.C. § 441f. The

⁵ John and Ruth Stauffer are the parents of Sam Brownback's wife.

⁶ The reported date of the contribution is based on the date of receipt reported by the PACs.

Commission also found reason to believe that the respondents may have violated 2 U.S.C. § 434 by failing to accurately report the nature of the PAC's receipts from Robert Riley, Jr. and its own contributions to the Bob Riley for Congress committee.

There are several reasons for believing that the respondents may have violated the election law. As noted, documents attached as exhibits to the Senate reports appear to indicate that Triad had a practice of asking campaigns that Triad decided to support for lists of their "maxed out" donors. At this time there is no other explanation for the proximity in timing and similarity in amounts between the contributions to the PACs and the subsequent PAC contributions to the Riley and Brownback committees.

This was the first time that Robert Riley, Jr. had contributed to this PAC. While the American Free Enterprise PAC was entitled to give up to \$5,000.00 to the campaign, the total amount donated was identical to the amount of Mr. Riley's original contribution. The data currently available indicates that Triad had communications with both the contributor, Robert Riley, Jr., and with its recommended PAC, through which the donation to the Bob Riley for Congress passed. These communications created an opportunity for the American Free Enterprise PAC to have agreed to make a contribution to a specific candidate, Robert R. Riley, in an amount identical to the contribution that they received from a Triad client, in this case the candidate's son.

In MUR 4633, the respondents submitted a response that denied the allegation that original contributor funds that been funneled through the PAC to the recipient campaign. Notwithstanding the respondents' conclusory denials, the Commission believes that there are substantial unanswered questions regarding these contributions.

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The factors outlined herein caused the Commission to find reason to believe that the American Enterprise PAC and David Bauer, as treasurer, may have violated the Federal Election Campaign Act of 1971, as amended. Specifically, the Commission has found reason to believe that the respondents may have violated 2 U.S.C. § 441f by allowing the name of the PAC to be used by Robert Riley, Jr. for the purpose of making contributions in the name of another. The Commission has also found reason to believe that the respondents may have violated 2 U.S.C. § 434 by failing to accurately report the nature of its receipts from Robert Riley, Jr. and its contribution to the Bob Riley for Congress committee.

The reasons for believing that the respondents may have violated the law with respect to the donations made by the Stauffers can be summarized as follows. Neither of the Stauffers had ever before contributed to the American Free Enterprise PAC. And, while the couple could have contributed up to \$5,000 each to the PAC, they limited the total aggregate contribution to the maximum amount that this PAC was entitled to, and did in fact, contribute to the Brownback committee. The data currently available demonstrates that Triad had communications with both the contributors and with its recommended PAC through which the donation to the Sam Brownback for U.S. Senate passed. These communications created an opportunity for the American Free Enterprise PAC to have agreed to make a contribution to a specific candidate, Sam Brownback, in an amount identical to the contribution that they received from a Triad client, in this case the candidate's in-laws, Mr. and Mr. Stauffer.

In MUR 4634, the respondents submitted a response that denied the allegation that original contributor funds that been funneled through the PAC to the recipient campaign. Notwithstanding the respondents' conclusory denials, the Commission believes that there are substantial unanswered questions regarding these contributions.

The factors outlined herein prompted the Commission to find reason to believe that the American Free Enterprise PAC and David Bauer, as treasurer, may have violated the Federal Election Campaign Act of 1971, as amended. Specifically, the Commission has found reason to believe that the respondents may have violated 2 U.S.C. § 441f by allowing the name of the PAC to be used by the Stauffers for the purpose of making contributions in the name of another. The Commission has also found reason to believe that the American Free Enterprise PAC and David Bauer, as treasurer, may have violated 2 U.S.C. § 434 by failing to accurately report the nature of its receipts from the Stauffers and its contributions to the Sam Brownback for U.S. Senate committee.